

# **Estimating the ‘True’ Cost of Job Loss: Evidence using Matched Data from California 1991-2000**

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## **Abstract**

The paper examines problems in measuring and estimating the displacement of workers and the associated cost of job loss. There are broadly two approaches to estimating the cost of job loss for workers in the literature. One using the Displaced Worker Supplement (DWS); the other using state administrative records (chiefly the Unemployment Insurance base wage file). While there are problems and benefits with both approaches, the estimates of the cost of job loss are markedly different. This paper uses a unique matched data set between the DWS and the Unemployment Insurance Base Wage (UI-BW) file for California. If the information content of the DWS is compared to the UIBW, it appears that either the DWS under counts, or the UI-BW over counts the number displaced. Correcting for measurement error in the displacement indicator (that is correlated with workers age), the results indicate that the ‘true’ cost of job loss lies somewhere between -16 and -12 percent of their predisplacement wage. Workers displaced because their plant closed do not suffer the same cost of job loss. The ‘true’ cost of job loss, for workers displaced from a plant closing, appears to be about -2.5 percent of their pre-displacement wage.